GOVERNMENT OF INDIA
FINANCE
LOK SABHA

STARRED QUESTION NO:89
ANSWERED ON:27.07.2001
CUT IN BANK INTEREST RATES
JASKAUR MEENA;SADASHIVRAO DADOBA MANDLIK

Will the Minister of FINANCE be pleased to state:

(a) the reduction made by RBI in the bank interest rates during the last one year;

(b) whether the Government have any proposal for effecting further cut in interest rates;

(c) if so, the details thereof and the reasons therefore;

(d) whether this reduction in interest rate is likely to have any impact on the Indian Economy; and

(e) if so, the details thereof?

Answer

FINANCE MINISTER (SHRI YASHWANT SINHA)

(a),(b),(c),(d) and (e) : A Statement is laid on the Table of the House.

Statement referred to in reply to parts (a),(b),(c),(d) and (e) of Lok Sabha StarredQuestion No.89 for 27.7.2001 raised by Shri Sadashivrao Dadoba Mandlik and Shrimati Jas Kaur Meena regarding Cut in Bank Interest Rates.

(a) The interest rate structure of the commercial banks has been deregulated, with banks having been given freedom to determine their deposit as well as lending rates, except the interest rates on export credit and Saving Bank deposit rates, which are currently prescribed by the RBI. Bank Rate, i.e. the rate of lending by Reserve Bank of India to banks, is set by the Reserve Bank of India from time to time to influence the general interest rate structure in the economy. The Reserve Bank had reduced the Bank Rate by one percentage point from 8.0 per cent to 7.0 per cent in two stages of 0.5 per cent each with effect from February 16, and March 2, 2001 respectively.

(b),(c), Interest rates policy in the context of Monetary Policy is decided by the Reserve Bank of India. The Reserve Bank in its Monetary and Credit Policy announced on April 19, 2001 has indicated that the overall stance of monetary policy for 2001-02 will be:

- Provision of adequate liquidity to meet credit growth and support revival of investment demand while continuing a vigil on movements in the price level.

- Within the overall framework of imparting greater flexibility to the interest rate regime in the medium-term, to continue the present stable interest rate environment with a preference for softening to the extent the evolving situation warrants.

(d)&(e) Reserve Bank of India have stated that the demand for industrial credit is usually buoyant in the second half of the year while demand for food credit is strong in the first half due to the procurement season. Further credit pick-up depends on the overall growth and business confidence. Lower interest rates help in bringing down prices and making Indian Industry and Business more competitive in global context.